

**DOWS COMMUNITY SCHOOL DISTRICT  
DOWS, IOWA**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**YEAR ENDED JUNE 30, 2004**

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Dows Community School District  
Dows, Iowa

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education  
(Before September 2003 Election)**

Shelly Howard	President	2003
Steve Tassinari	Board Member	2003
Corey Jacobson	Board Member	2004
Kristi Hinkle	Board Member	2005
Marty Osterman	Board Member	2005

**Board of Education  
(After September 2003 Election)**

Shelly Howard	President	2006
Corey Jacobson	Board Member	2004
Kristi Hinkle	Board Member	2005
Marty Osterman	Board Member	2005
Pam Odland	Board Member	2006

**School Officials**

Lyle Schwartz	Superintendent	2004
Carol Hanson	District Secretary/Treasurer and Business Manager	2004
Rick Engel	Attorney	Indefinite

## Independent Auditor's Report

To the Board of Education of  
Dows Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dows Community School District, Dows, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dows Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Dows Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004 on our consideration of Dows Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 41 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dows Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (which is not presented herein) and expressed a qualified opinion on those financial statements. Our opinion was qualified because the financial statements for the year ended June 30, 2003 did not include the general fixed asset account group or property, plant and equipment of the Enterprise Fund. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

August 13, 2004

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Dows GASB 34 Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

**Financial Highlights**

- General Fund revenues were \$1,707,853 for fiscal year 2004, while General Fund expenditures were \$1,691,434 in fiscal year 2004. This resulted in the District's General Fund balance of \$705,086, which was an increase of \$16,419 from the balance in fiscal year 2003.
- The District started collecting School Infrastructure Local Option Sales Tax from Franklin County during the year. Other than tuckpointing the building, no other definite plans have been made for the usage of these funds.

## (a) Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

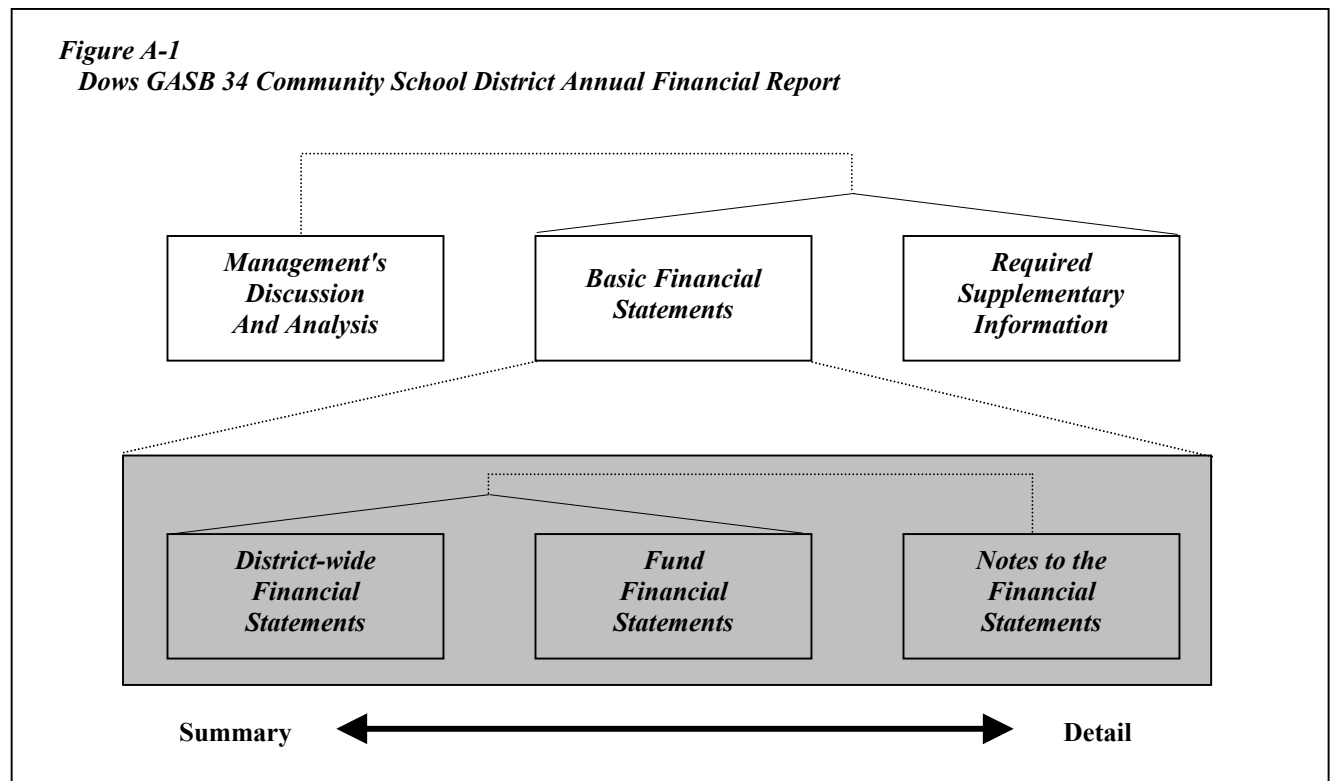


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2**

***Major Features of the District-Wide and Fund Financial Statements***

	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities. Declining student enrollment also impacts the District's overall financial health.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## (b) – (c) Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004.

Figure A-3 Condensed Statement of Net Assets June 30, 2004			
	Governmental Activities	Business-type Activities	Total School District
Current Assets	\$2,090,014	\$21,576	\$2,111,590
Capital Assets	\$350,708	\$5,549	\$356,257
Total Assets	\$2,440,722	\$27,125	\$2,467,847
Current Liabilities	\$1,257,592	\$460	\$1,258,052
Other Liabilities	\$7,655	\$0	\$7,655
Total Liabilities	\$1,265,247	\$460	\$1,265,707
Net Assets			
Invested in capital assets, net of related debt	\$350,708	\$5,549	\$356,257
Restricted	\$122,801	\$0	\$122,801
Unrestricted	\$701,966	\$21,116	\$723,082
Total Net Assets	\$1,175,475	\$26,665	\$1,202,140

The District's net assets for governmental activities were \$1,175,475 on June 30, 2004 for fiscal year 2004. The net assets for business type activities were \$26,665 on June 30, 2004. When these are combined, the total combined net assets were \$1,202,140 on June 30, 2004.

### **Governmental Activities**

Revenues for governmental activities were \$1,891,748 and expenses were \$1,868,978.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-4 Total & Net Cost of Governmental Activities June 30, 2004		
	Total Cost of Services	Net Cost of Services
Instruction	\$1,197,043	-\$800,135
Support Services	\$540,701	-\$537,130
Other Expenses	\$64,813	\$22,536
Total Net Assets	\$1,802,557	-\$1,314,729

- The cost financed by users of the District's programs was \$1,834,583.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$231,488.
- The net cost of governmental activities was financed with \$962,707 in property tax, and other taxes, \$406,818 in unrestricted state grants, \$7,755 in interest income, and \$26,640 in other revenue.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$70,063 and expenses were \$66,421. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District maintained the same prices for food service.

## **(d) Financial Analysis of the District's Funds**

As previously noted, the Dows GASB 34 Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the fiscal year 2004, its governmental funds reported combined fund balances of \$832,422.

### **Governmental Fund Highlights**

- The District's General Fund financial position has remained fairly constant and is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was offset by the District's increase in General Fund expenditures to meet its financial obligations during the year.

- The General Fund balance decreased from \$365,242 to \$109,541, due in part to the negotiated salary and benefits settlement and the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance was \$85,362.
- The Capital Projects was started in the fiscal year ending June 30, 2004 as a result of the passage of the SILO tax in Franklin County. The first revenues were received in March 2004. This amount was \$868.90. This money can be used for the same purposes as the District's PPEL funds. The fund balance was \$4535.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets for the fiscal year ending June 30, 2004 were \$26,665. The program maintained prices at the same level as the previous year.

## **(e) Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

### **Legal Budgetary Highlights**

The District's total actual receipts were \$166,143 more than the total budgeted receipts, even though the District received less in various components of state aid than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Other Expenditures. This was due to the passage of the School Infrastructure Local Option Sales Tax (SILO). This was not in effect when we adopted the budget. The budget should have been amended to reflect the change, but it was not due to our oversight.

## **(f) Capital Asset and Debt Administration**

### **Capital Assets**

At June 30, 2004, the District had invested \$2,467,847, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-5) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$356,257.

Figure A-5			
Capital Assts, End of Year Balance			
Less Accumulated Depreciation			
June 30, 2004			
	Governmental	Business-type	Total
	Activities	Activities	School District
Land	\$4,258	\$0	\$4,258
Construction in progress	\$0	\$0	\$0
Buildings	\$750,531	\$0	\$750,531
Improvement other than buildings	\$0	\$0	\$0
Furniture	\$274,539	\$5,549	\$280,088
Total Net Assets	\$1,025,070		\$1,030,619

The original cost of the District's capital assets was \$1,531,867. Governmental funds account for \$36,057 with the remainder of \$1,111 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred due to the tuckpointing of the building and the replacement of the heating plant. The heating plant replacement was paid by a combination of grant funds and PPEL funds. The tuckpointing was paid by PPEL funds.

### **Long-Term Debt**

At June 30, 2004, the Dows Community School District has no long-term debt.

## **(h) Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- Dows County is entering the final year of a two-way whole grade sharing agreement with CAL Community School District for grades 6-12. Dows will enter into a new one-way whole-grade sharing agreement for grades 7-12 with Clarion-Goldfield beginning in 2005-06.
- The new sharing agreement calls for 65% of the Clarion-Goldfield cost per student to follow the student with the other 35% remaining with Dows.
- Dows anticipates a high percentage of resident students in grades 9-12 to open enroll or request affected student status to contiguous districts other than Clarion-Goldfield for the first few years of the new sharing agreement. This will increase funds going to other districts for these students.
- Although the District has experienced declining enrollment in recent years, the District expects to maintain a stable enrollment for a few years.
- The new sharing agreement will necessitate the reduction in the Dows teaching force. It is anticipated that there will be a decline from over to 21 FTE to approximately 11 FTE. This will significantly reduce expenditures for personnel.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lyle Schwartz, Superintendent, or Carol Hanson, District Secretary/Treasurer and Business Manager, Dows GASB 34 Community School District, 404 Park Avenue, Dows, Iowa 50071.

## **Basic Financial Statements**

Dows Community School District  
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	\$ 245,441	-	245,441
Other	893,842	18,469	912,311
Receivables:			
Property tax:			
Delinquent	10,172	-	10,172
Succeeding year	930,036	-	930,036
Accounts	931	-	931
Accrued interest:			
ISCAP	465	-	465
Due from other governments	9,127	-	9,127
Inventories	-	3,107	3,107
Capital assets, net of accumulated depreciation	350,708	5,549	356,257
<b>Total assets</b>	<u>2,440,722</u>	<u>27,125</u>	<u>2,467,847</u>
<b>Liabilities</b>			
Excess of warrants issued over bank balance	75,732	-	75,732
Accounts payable	2,825	-	2,825
Salaries and benefits payable	1,678	460	2,138
Deferred revenue - succeeding year property tax	930,036	-	930,036
ISCAP warrants payable	244,000	-	244,000
ISCAP accrued interest payable	3,321	-	3,321
Long-term liabilities:			
Portion due after one year:			
Compensated absences	7,655	-	7,655
<b>Total liabilities</b>	<u>1,265,247</u>	<u>460</u>	<u>1,265,707</u>

(continued)



Dows Community School District  
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2004

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	350,708	5,549	356,257
Restricted for:			
Management levy	19,181	-	19,181
Physical plant and equipment levy	85,362	-	85,362
Other special revenue purposes	18,258	-	18,258
Unrestricted	<u>701,966</u>	<u>21,116</u>	<u>723,082</u>
<b>Total net assets</b>	<u><u>\$ 1,175,475</u></u>	<u><u>26,665</u></u>	<u><u>1,202,140</u></u>

See notes to financial statements.

Dows Community School District  
Dows, Iowa  
Statement of Activities  
Year ended June 30, 2004

		Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	<u>Expenses</u>	<u>Service</u>		
<b><u>Functions/Programs</u></b>				
Governmental activities:				
Instruction:				
Regular instruction	\$ 748,746	46,336	144,563	-
Special instruction	387,814	141,176	32,653	-
Other instruction	60,483	32,180	-	-
	<u>1,197,043</u>	<u>219,692</u>	<u>177,216</u>	<u>-</u>
Support services:				
Student services	27,784	2,801	-	-
Instructional staff services	50,958	-	-	-
Administration services	223,840	-	-	-
Operation and maintenance of plant services	128,253	-	-	-
Transportation services	79,622	770	-	-
Central support services	30,244	-	-	-
	<u>540,701</u>	<u>3,571</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	10,541	-	-	33,077
AEA flowthrough	54,272	-	54,272	-
	<u>64,813</u>	<u>-</u>	<u>54,272</u>	<u>33,077</u>
Total governmental activities	<u>1,802,557</u>	<u>223,263</u>	<u>231,488</u>	<u>33,077</u>
Business type activities:				
Non-instructional programs:				
Food service operations	66,421	25,011	45,052	-
Total	<u>\$ 1,868,978</u>	<u>248,274</u>	<u>276,540</u>	<u>33,077</u>
<b><u>General Revenues:</u></b>				
Property tax levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year, as restated (note 10)				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

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Governmental Activities	Business Type Activities	Total
(557,847)	-	(557,847)
(213,985)	-	(213,985)
(28,303)	-	(28,303)
<u>(800,135)</u>	<u>-</u>	<u>(800,135)</u>
(24,983)	-	(24,983)
(50,958)	-	(50,958)
(223,840)	-	(223,840)
(128,253)	-	(128,253)
(78,852)	-	(78,852)
(30,244)	-	(30,244)
<u>(537,130)</u>	<u>-</u>	<u>(537,130)</u>
22,536	-	22,536
<u>-</u>	<u>-</u>	<u>-</u>
<u>22,536</u>	<u>-</u>	<u>22,536</u>
<u>(1,314,729)</u>	<u>-</u>	<u>(1,314,729)</u>
<u>-</u>	<u>3,642</u>	<u>3,642</u>
<u>(1,314,729)</u>	<u>3,642</u>	<u>(1,311,087)</u>
\$ 882,261	-	882,261
75,911	-	75,911
4,535	-	4,535
406,818	-	406,818
7,755	51	7,806
<u>26,640</u>	<u>-</u>	<u>26,640</u>
<u>1,403,920</u>	<u>51</u>	<u>1,403,971</u>
89,191	3,693	92,884
<u>1,086,284</u>	<u>22,972</u>	<u>1,109,256</u>
<u>\$ 1,175,475</u>	<u>26,665</u>	<u>1,202,140</u>

Dows Community School District  
Dows, Iowa

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 245,441	-	245,441
Other	770,363	123,479	893,842
Receivables:			
Property tax:			
Delinquent	8,997	1,175	10,172
Succeeding year	807,108	122,928	930,036
Accounts	931	-	931
Accrued interest:			
ISCAP	465	-	465
Due from other funds	-	3,115	3,115
Due from other governments	<u>8,163</u>	<u>964</u>	<u>9,127</u>
<b>Total assets</b>	<u><u>\$ 1,841,468</u></u>	<u><u>251,661</u></u>	<u><u>2,093,129</u></u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Excess of warrants issued over bank balance	\$ 74,335	1,397	75,732
Accounts payable	2,825	-	2,825
Salaries and benefits payable	1,678	-	1,678
Due to other funds	3,115	-	3,115
ISCAP warrants payable	244,000	-	244,000
ISCAP accrued interest payable	3,321	-	3,321
Deferred revenue:			
Succeeding year property tax	<u>807,108</u>	<u>122,928</u>	<u>930,036</u>
Total liabilities	<u><u>1,136,382</u></u>	<u><u>124,325</u></u>	<u><u>1,260,707</u></u>
Fund balances:			
Unreserved	<u>705,086</u>	<u>127,336</u>	<u>832,422</u>
Total fund balances	<u><u>705,086</u></u>	<u><u>127,336</u></u>	<u><u>832,422</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 1,841,468</u></u>	<u><u>251,661</u></u>	<u><u>2,093,129</u></u>

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2004

<b>Total fund balances of governmental funds (page 17)</b>	<b>\$ 832,422</b>
--	-------------------

*Amounts reported for governmental activities in the  
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	350,708
--	---------

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(7,655)</u>
---	----------------

<b>Net assets of governmental activities (page 14)</b>	<b><u>\$ 1,175,475</u></b>
--	----------------------------

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues:			
Local sources:			
Local tax	\$ 847,016	115,095	962,111
Tuition	187,512	-	187,512
Other	34,494	35,451	69,945
State sources	560,422	72	560,494
Federal sources	78,409	33,077	111,486
Total revenues	<u>1,707,853</u>	<u>183,695</u>	<u>1,891,548</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	748,746	-	748,746
Special instruction	387,814	-	387,814
Other instruction	27,223	33,260	60,483
	<u>1,163,783</u>	<u>33,260</u>	<u>1,197,043</u>
Support services:			
Student services	27,784	-	27,784
Instructional staff services	50,958	-	50,958
Administration services	223,840	-	223,840
Operation and maintenance of plant services	112,187	18,938	131,125
Transportation services	58,610	30,320	88,930
Central support services	-	30,244	30,244
	<u>473,379</u>	<u>79,502</u>	<u>552,881</u>
Other expenditures:			
Facilities acquisition	-	120,508	120,508
AEA flowthrough	54,272	-	54,272
	<u>54,272</u>	<u>120,508</u>	<u>174,780</u>
Total expenditures	<u>1,691,434</u>	<u>233,270</u>	<u>1,924,704</u>
Excess (deficiency) of revenues over (under) expenditures	16,419	(49,575)	(33,156)
Other financing sources (uses):			
Sale of equipment	200	-	200
Net change in fund balances	16,619	(49,575)	(32,956)
Fund balances beginning of year, as restated (note 10)	688,467	176,911	865,378
Fund balances end of year	<u>\$ 705,086</u>	<u>127,336</u>	<u>832,422</u>

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2004

**Net change in fund balances - total governmental funds (page 19)** \$ (32,956)

**Amounts reported for governmental activities in the  
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	149,114	
Depreciation expense	<u>(26,967)</u>	<u>122,147</u>

**Change in net assets of governmental activities (page 16)** \$ 89,191

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit G

Statement of Net Assets  
Proprietary Fund

June 30, 2004

School  
Nutrition

**Assets**

Cash and cash equivalents	\$ 18,469
Inventories	3,107
Capital assets, net of accumulated depreciation	<u>5,549</u>
<b>Total assets</b>	<u>27,125</u>

**Liabilities**

Salaries and benefits payable	<u>460</u>
<b>Total liabilities</b>	<u>460</u>

**Net Assets**

Invested in capital assets, net of related debt	5,549
Unrestricted	<u>21,116</u>
	<u>\$ 26,665</u>
<b>Total net assets</b>	

See notes to financial statements.



Dows Community School District  
Dows, Iowa

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2004

School  
Nutrition

Operating revenues:

Local sources:

Charges for service \$ 25,011

Operating expenses:

Non-instructional programs:

Food service operations:

Salaries and benefits 34,404

Purchased services 538

Supplies 30,368

Depreciation 1,111

Total operating expenses 66,421

Operating loss (41,410)

Non-operating revenues:

State sources 1,069

Federal sources 43,983

Interest income 51

Total non-operating revenues 45,103

Change in net assets 3,693

Net assets beginning of year, as restated (note 10) 22,972

Net assets end of year \$ 26,665

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2004

	School <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 25,011
Cash paid to employees for services	(36,652)
Cash paid to suppliers for goods or services	<u>(25,649)</u>
Net cash used by operating activities	<u>(37,290)</u>
Cash flows from non-capital financing activities:	
State grants received	1,069
Federal grants received	<u>38,676</u>
Net cash provided by non-capital financing activities	<u>39,745</u>
Cash flows from investing activities:	
Interest on investments	<u>51</u>
Net increase in cash and cash equivalents	2,506
Cash and cash equivalents beginning of year	<u>15,963</u>
Cash and cash equivalents end of year	<u>\$ 18,469</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (41,410)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	5,307
Depreciation	1,111
(Increase) in inventories	(50)
(Decrease) in salaries and benefits payable	<u>(2,248)</u>
Net cash used by operating activities	<u>\$ (37,290)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2004, the District received \$5,307 of federal commodities.

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Exhibit J

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2004

	Private Purpose Trust <u>Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	\$ 19,288
Accrued interest receivable	<u>19</u>
<b>Total assets</b>	<u>19,307</u>
<b>Liabilities</b>	None
<b>Net assets</b>	
Reserved for scholarships	<u><u>\$ 19,307</u></u>

See notes to financial statements

Dows Community School District  
Dows, Iowa

Exhibit K

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2004

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 4,000
Interest income	<u>162</u>
Total additions	4,162
Deductions:	
Support services:	
Scholarships awarded	<u>2,400</u>
Change in net assets	1,762
Net assets beginning of year	<u>17,545</u>
Net assets end of year	<u><u>\$ 19,307</u></u>

See notes to financial statements.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

Dows Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Dows, Iowa, and the predominate agricultural territory in Wright and Franklin counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Dows Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Dows Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wright and Franklin County Assessor's Conference boards.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the

Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from

the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.



Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintained its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	8-10 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use in accordance with Dows Community School District's collective bargaining agreement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the other expenditures functional area exceeded the amounts budgeted.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$853,335 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization. The District also invests in non-negotiable certificates of deposit which are stated at cost.

**(3) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2004 is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	<u>Amount</u>
Special Revenue:			
Physical Plant & Equipment Levy	General		\$ 3,115
			=====

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

The General Fund is repaying the Physical Plant and Equipment Levy Fund for expenses that were incorrectly recorded in the prior year. The balance will be repaid by June 30, 2005.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Invest- ments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/04	1/28/05	\$ 85,579	465	85,000	1,116
2004-05A	6/30/04	6/30/05	<u>159,862</u>	<u>---</u>	<u>159,000</u>	<u>2,205</u>
Total			<u>\$ 245,441</u>	<u>465</u>	<u>244,000</u>	<u>3,321</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity for the year ended June 30, 2004.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.00%	1.310
2004-05A	3.00%	2.463

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 10)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 4,258	---	---	4,258
Construction in progress	<u>69,662</u>	<u>---</u>	<u>69,662</u>	<u>---</u>
Total capital assets not being depreciated	<u>73,920</u>	<u>---</u>	<u>69,662</u>	<u>4,258</u>
Capital assets being depreciated:				
Buildings	607,377	143,154	---	750,531
Improvements other than buildings	---	---	---	---
Furniture and equipment	<u>198,917</u>	<u>75,622</u>	<u>---</u>	<u>274,539</u>
Total capital assets being depreciated	<u>806,294</u>	<u>218,776</u>	<u>---</u>	<u>1,025,070</u>
Less accumulated depreciation for:				
Buildings	537,670	5,549	---	543,219
Improvements other than buildings	---	---	---	---
Furniture and equipment	<u>113,983</u>	<u>21,418</u>	<u>---</u>	<u>135,401</u>
Total accumulated depreciation	<u>651,653</u>	<u>26,967</u>	<u>---</u>	<u>678,620</u>
Total capital assets being depreciated, net	<u>154,641</u>	<u>191,809</u>	<u>---</u>	<u>346,450</u>
Governmental activities capital assets, net	<u>\$ 228,561</u>	<u>191,809</u>	<u>69,662</u>	<u>350,708</u>

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

	Balance Beginning of Year, as restated (note 10)	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	\$ 36,057	---	---	36,057
Less accumulated depreciation	<u>29,397</u>	<u>1,111</u>	<u>---</u>	<u>30,508</u>
Business type activities capital assets, net	<u>\$ 6,660</u>	<u>1,111</u>	<u>---</u>	<u>5,549</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Operation and maintenance of plant

\$ 5,955

Transportation

21,012

Total depreciation expense – governmental activities

\$ 26,967

Business type activities:

Food service operations

\$ 1,111

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Compensated absences	<u>\$ 7,655</u>	<u>---</u>	<u>---</u>	<u>7,655</u>	<u>---</u>



Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75 % of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$57,763, \$58,599 and \$55,966, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Dows Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$54,272 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

**(10) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District’s programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Dows Community School District  
Dows, Iowa

Notes to Financial Statements

June 30, 2004

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	<u>Fund</u>		
	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 688,467 =====	176,911 =====	865,378
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$154,641			228,561
Long-term liabilities:			
Compensated absences			<u>(7,655)</u>
Net assets July 1, 2003, as restated			\$ 1,086,284 =====

Business Type Activities:

Business type activities financial statements were previously qualified as capital assets were omitted. The capital assets were added so the District would be in compliance with GASB 34.

	<u>School Nutrition Fund</u>
Net assets June 30, 2003 as previously reported	\$ 16,312
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$29,397	<u>6,660</u>
Net assets July 1, 2003 as restated	\$ 22,972 =====

## **Required Supplementary Information**

Dows Community School District  
Dows, Iowa

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>
Receipts:		
Local sources	\$ 1,365,743	25,044
State sources	560,489	1,069
Federal sources	<u>145,181</u>	<u>38,694</u>
Total receipts	<u>2,071,413</u>	<u>64,807</u>
Disbursements:		
Instruction	1,196,644	-
Support services	593,979	-
Non-instructional programs	-	62,301
Other expenditures	<u>174,780</u>	<u>-</u>
Total disbursements	<u>1,965,403</u>	<u>62,301</u>
Excess (deficiency) of receipts over (under) disbursements	106,010	2,506
Other financing sources, net	<u>200</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	106,210	2,506
Balances beginning of year	<u>711,900</u>	<u>15,963</u>
Balances end of year	<u><u>\$ 818,110</u></u>	<u><u>18,469</u></u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,390,787	1,186,957	1,186,957	203,830
561,558	701,120	701,120	(139,562)
<u>183,875</u>	<u>132,000</u>	<u>132,000</u>	51,875
<u>2,136,220</u>	<u>2,020,077</u>	<u>2,020,077</u>	<u>116,143</u>
1,196,644	1,465,657	1,465,657	269,013
593,979	1,211,248	1,211,248	617,269
62,301	98,305	98,305	36,004
<u>174,780</u>	<u>58,171</u>	<u>58,171</u>	<u>(116,609)</u>
<u>2,027,704</u>	<u>2,833,381</u>	<u>2,833,381</u>	<u>805,677</u>
108,516	(813,304)	(813,304)	921,820
<u>200</u>	<u>-</u>	<u>-</u>	<u>200</u>
108,716	(813,304)	(813,304)	922,020
<u>727,863</u>	<u>813,304</u>	<u>813,304</u>	<u>(85,441)</u>
<u>836,579</u>	<u>-</u>	<u>-</u>	<u>836,579</u>

Dows Community School District  
Dows, Iowa

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash <u>Basis</u>	Accrual <u>Adjustments</u>	Modified Accrual <u>Basis</u>
Revenues	\$ 2,071,413	(179,865)	1,891,548
Expenditures	<u>1,965,403</u>	<u>(40,699)</u>	1,924,704
Net	106,010	(139,166)	(33,156)
Other financing sources, net	200	-	200
Beginning fund balances	<u>711,900</u>	<u>153,478</u>	<u>865,378</u>
Ending fund balances	<u><u>\$ 818,110</u></u>	<u><u>14,312</u></u>	<u><u>832,422</u></u>

	Proprietary Fund		
	Enterprise		
	Cash <u>Basis</u>	Accrual <u>Adjustments</u>	Accrual <u>Basis</u>
Revenues	\$ 64,807	5,307	70,114
Expenses	<u>62,301</u>	<u>4,120</u>	66,421
Net	2,506	1,187	3,693
Beginning net assets	<u>15,963</u>	<u>7,009</u>	<u>22,972</u>
Ending net assets	<u><u>\$ 18,469</u></u>	<u><u>8,196</u></u>	<u><u>26,665</u></u>

See accompanying independent auditor's report.

Dows Community School District  
Dows, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the other expenditures function exceeded the amounts budgeted.



## **Other Supplementary Information**

Dows Community School District  
Dows, Iowa

Schedule 1

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2004

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	Capital <u>Projects</u>	<u>Total</u>
<b>Assets</b>					
Cash and pooled investments	\$ 18,812	18,258	82,838	3,571	123,479
Receivables:					
Property tax:					
Delinquent	369	-	806	-	1,175
Succeeding year	60,000	-	62,928	-	122,928
Due from other funds	-	-	3,115	-	3,115
Due from other governments	<u>-</u>	<u>-</u>	<u>-</u>	<u>964</u>	<u>964</u>
<b>Total assets</b>	<u>\$ 79,181</u>	<u>18,258</u>	<u>149,687</u>	<u>4,535</u>	<u>251,661</u>
<b>Liabilities and Fund Equity</b>					
Liabilities:					
Excess of warrants issued over bank balance	\$ -	-	1,397	-	1,397
Deferred revenue:					
Succeeding year property tax	<u>60,000</u>	<u>-</u>	<u>62,928</u>	<u>-</u>	<u>122,928</u>
Total liabilities	60,000	-	64,325	-	124,325
Fund equity:					
Unreserved fund balances	<u>19,181</u>	<u>18,258</u>	<u>85,362</u>	<u>4,535</u>	<u>127,336</u>
<b>Total liabilities and fund equity</b>	<u>\$ 79,181</u>	<u>18,258</u>	<u>149,687</u>	<u>4,535</u>	<u>251,661</u>

See accompanying independent auditor's report.

Dows Community School District  
Dows, Iowa

Schedule 2

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2004

	<u>Special Revenue</u>				
	Management	Student	Physical Plant and Equipment	Capital	
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Projects</u>	<u>Total</u>
Revenues:					
Local sources:					
Local tax	\$ 34,696	-	75,864	4,535	115,095
Other	133	32,241	3,077	-	35,451
State sources	25	-	47	-	72
Federal sources	-	-	33,077	-	33,077
Total revenues	<u>34,854</u>	<u>32,241</u>	<u>112,065</u>	<u>4,535</u>	<u>183,695</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	33,260	-	-	33,260
Support services:					
Operation and maintenance of plant					
services	-	-	18,938	-	18,938
Student transportation	-	-	30,320	-	30,320
Central support services	30,244	-	-	-	30,244
Other expenditures:					
Facilities acquisition	-	-	120,508	-	120,508
Total expenditures	<u>30,244</u>	<u>33,260</u>	<u>169,766</u>	<u>-</u>	<u>233,270</u>
Excess (deficiency) of revenues over (under) expenditures	4,610	(1,019)	(57,701)	4,535	(49,575)
Fund balances beginning of year, as restated	<u>14,571</u>	<u>19,277</u>	<u>143,063</u>	<u>-</u>	<u>176,911</u>
Fund balances end of year	<u>\$ 19,181</u>	<u>18,258</u>	<u>85,362</u>	<u>4,535</u>	<u>127,336</u>

See accompanying independent auditor's report.

Dows Community School District  
Dows, Iowa

Schedule 3

Schedule of Changes in Special Revenue Fund,  
Student Activity Accounts

Year ended June 30, 2004

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Key to the Stars	\$ 2,183	2,612	2,549	2,246
Athletics	1,390	5,920	6,677	633
Class of:				-
2005	2,301	-	2,301	-
2006	2,103	-	-	2,103
2007	1,581	-	-	1,581
2008	-	1,790	-	1,790
2009	152	-	144	8
Concessions	392	3,361	3,556	197
FHA	112	1,146	1,146	112
Revolving Account	-	-	-	-
Instrumental Music	1	1,083	1,084	-
Vocal Music	41	-	-	41
Book Orders	693	2,892	2,549	1,036
Screenprinting	180	-	-	180
Postage	-	536	536	-
Interest	5,655	71	132	5,594
Drama	336	592	583	345
Fundraisers	1,172	11,324	10,956	1,540
Horticulture	12	-	-	12
Elementary Fund	<u>973</u>	<u>914</u>	<u>1,047</u>	<u>840</u>
 Total	 <u>\$ 19,277</u>	 <u>32,241</u>	 <u>33,260</u>	 <u>18,258</u>

See accompanying independent auditor's report.

Dows Community School District  
Dows, Iowa

Schedule 4

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	<u>2004</u>	<u>2003</u>
Revenues:		
Local sources:		
Local tax	\$ 962,111	869,942
Tuition	187,512	157,575
Other	69,945	48,879
State sources	560,494	552,508
Federal sources	111,486	52,915
Total	<u>\$ 1,891,548</u>	<u>1,681,819</u>
Expenditures:		
Instruction:		
Regular instruction	\$ 748,746	710,491
Special instruction	387,814	282,988
Other instruction	60,483	107,336
Support services:		
Student services	27,784	41,185
Instructional staff services	50,958	72,235
Administration services	223,840	223,806
Operation and maintenance of plant services	131,125	104,896
Transportation services	88,930	63,697
Central support services	30,244	-
Other expenditures:		
Facilities acquisition	120,508	-
AEA flowthrough	54,272	57,892
Total	<u>\$ 1,924,704</u>	<u>1,664,526</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Board of Education of  
Dows Community School District:

We have audited the financial statements of Dows Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dows Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item II-G-04.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dows Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Dows Community School District and other parties to whom Dows Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Dows Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

August 13, 2004

Dows Community School District  
Dows, Iowa

Schedule of Findings

Year ended June 30, 2004

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

I-A-04     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are doing everything we can within our situation and make improvements as the situation changes.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04     Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04     Certified Budget - Disbursements for the year ended June 30, 2004 exceeded the certified budget amount in the other expenditures function.



Dows Community School District  
Dows, Iowa

Schedule of Findings

Year ended June 30, 2004

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Future budgets will be amended in the future to insure the certified budget is not exceeded.

Conclusion – Response accepted.

- II-C-04    Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-D-04    Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04    Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-F-04    Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04    Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted. We noted however, that the minutes were not always published timely as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District should insure that all minutes are published within two weeks of the Board meeting as required by the Code of Iowa.

Response – This was an oversight this year.

Conclusion – Response accepted.

Dows Community School District  
Dows, Iowa

Schedule of Findings

Year ended June 30, 2004

- II-H-04    Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04    Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- II-J-04    Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.